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SUBJECT: TURKEY AND MAKING PROGRESS ON THE SOUTHERN GAS
CORRIDOR

REF: A. BAKU 1193

[1](#)B. ATHENS 2078

[1](#)C. ANKARA 4241

Classified By: ECONOMIC COUNSELOR THOMAS GOLDBERGER FOR REASONS 1.4 (B
AND D)

[1](#)1. (C) SUMMARY: In August 8 meetings in Ankara with State Department (S/P) energy advisor Steve Hellman on southern energy corridor issues, Turkish officials made clear that they were not insisting on a role for Turkey as market & consolidator⁸ that would buy natural gas produced in Azerbaijan for resale to end-users in southern Europe via the Turkey-Greece Interconnector (TGI) gas pipeline. Turkish officials are open to a more traditional fee for transit arrangement, providing that Turkey receives what it believes is a fair deal, which would in turn require commercial negotiations with all the parties to the arrangement. They would also be prepared to accept USTDA assistance in identifying suitable models, such as the U.S. Henry Hub, for developing Turkey's potential as a gas distribution hub. At the same time, BOTAS officials claim that the Turkey link to the South Caucasus Pipeline terminating in Erzurum will be completed before the end of the year, and that TGI construction is similarly on track. Russian pressure on Turkey to accept Russian gas to fill the TGI also continues, with a Gazprom team expected in Turkey August 15. It is therefore important that we continue to work behind the scenes to bring together TGI partners to agree in the short term on a symbolic agreement to transit Azeri gas to Greece. End Summary.

The Message) Establish Transit Deal

[1](#)2. (C) Hellman emphasized the shared U.S. and Turkish goal of facilitating southern egress of Caspian gas to Turkey and on to Europe. This would increase competition and security of supply by diversifying sources of supply and lessening reliance on Russia's Gazprom as single dominant supplier. He called for Turkey to send a clear signal that it is & open for business⁸ by quickly facilitating a symbolic direct contract between Greece and Azerbaijan for provision of gas through the Turkey-Greece Interconnector (TGI) based on a transparent transit arrangement with and fees to Turkey per international norms. He said this would counter perceptions

that Turkey aimed to act like Gazprom, buying and re-selling as a consolidator.⁸ Hellman stressed that this would immediately show Turkey's willingness to serve as a key transit network with a clear transit regime. Moreover, he suggested that the U.S. Henry Hub could serve as a model for a transit system in Turkey and offered the assistance of USTDA in familiarizing Turkish officials with the Henry Hub.

We Support the Corridor, But...

13. (C) Energy Ministry (MENR) U/S Sami Demirbilek agreed in principle, but said Turkey needed to better understand the plans and intent of Azerbaijan, Greece, Italy, and the consortium before it could clearly identify its transit regime. In order for Turkey not to be taken advantage of, Demirbilek thought there needed to be some sort of overall and simultaneous commercial agreement among all parties. He rejected as false the rumor that Turkey intends to be a consolidator or monopolist. He attributed the rumor to: 1) Azerbaijan showing some hesitation on following through with providing gas at agreed prices (facing Russian threats on supply and pricing), and 2) confusion with Turkey's separate efforts to slow down a deal between Austria's OMV and Iran on gas for Nabucco by inserting Turkey into the deal. Demirbilek said Turkey would do its best to make a deal with Azerbaijan and the others, and Hellman offered to facilitate a meeting of the key partners to reach agreement for TGI. Demirbilek also said he would be happy to learn more about the Henry Hub.

Nabucco Challenges) OMV and Iran

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14. (C) Demirbilek was highly critical of Austrian OMV's greedy and ill-advised efforts to strike a direct deal with Iran using the Nabucco pipeline, but without talking to Turkey about transit. He cited Turkey's own problems with Iran, which put in question Iran's reliability as a supplier. In response to the direct talks between OMV and Iran, he said Turkey had insisted on creation of a joint stock company with Turkish participation that would negotiate with Nabucco suppliers. Demirbilek lamented that Turkey's reasonable concerns about Nabucco and OMV have created the false impression that Turkey aims to act like a monopolist in the case of TGI.

BOTAS Ready to Play) Claims on Time on SCP

15. (C) In an earlier meeting, BOTAS Acting DG Saltuk Duzyol told Hellman that BOTAS supported a fee for transit arrangement, but deferred to the MENR for a political decision. Duzyol and his assistant Sakir Arikan were adamant that BOTAS would complete the Erzurum link to the South Caucasus Pipeline (SCP) by October-November, just within the contractual window. Arikan strongly criticized SCP Consortium David Woodward's public claim that BOTAS was facing a considerable delay.⁸ Noting that the project had been started late, but was being completed at a cost of one-fifth of what BP would spend, Arikan said that a 2-3 month delay was entirely reasonable for a project of this scale.

16. (C) The BOTAS officials said that the TGI had overcome some delays in both Turkey and Greece and they expected to complete the last hurdle of the Meric River crossing and achieve TGI completion by March 2007. The BOTAS officials said that there was plenty of additional capacity in the BOTAS grid to transit the 11 BCM contemplated for the full capacity TGI when ultimately linked to Italy. Sarikan noted

that with investment in looping and compressors, BOTAS had significant additional capacity, but claimed that the number is commercially sensitive because of the current Nabucco negotiations. Duzyol was enthusiastic about the approximate 5 BCM of Egyptian gas which he said would begin flowing to Turkey in 2008.

Statoil Bearish) but Ready to Help

17. (C) In a separate meeting, Statoil Turkey Manager Per Myrvang told us that he had been prepared to approach Turkey on behalf of the SCP-Shah Deniz consortium, but had held off because of all the noise and uncertainty about Turkey's intent on a transit arrangement. He said that the Azeris were under extreme pressure from the Russians, who were threatening to reduce in kind any amounts sold (cheaply per the contract) to Turkey with much higher priced (o/a \$200) gas. Myrvang said that Energy Minister Hilmi Guler was the sole decision maker on gas issues and thought that there were still people around him pushing for the scheme of hub as consolidator. (Corroborating this, one of Guler's senior advisors separately presented Energy Officer with a detailed scheme for an Ankara & Ahiboz hub with & Ahiboz up and & Ahiboz down pricing.) Myrvang observed that Turkey was no longer over-contracted for gas, so Turkey, Azerbaijan, and Georgia would have to work out whose gas initially goes on the Greece. Myrvang said that Statoil was prepared to play a commercially facilitative role for the EU where it had a lot of contacts and experience in marketing gas. He thought that the EU competition rules proscribing joint marketing of gas could be overcome, maybe by SOCAR doing the marketing.

Russian Blue Stream and LNG

18. (C) Seeking to creatively help Turkey meld its positive east-west vision with Russian ambitions to expand Blue Stream as part of a north-south corridor, perhaps linked to Israel,

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Hellman asked Turkish officials about potential to use the existing BOTAS grid and the unused Izmir gas processing facility, investing in it as a brown-field conversion to an LNG exporting facility. Both BOTAS and MENR were reserved about this idea, and skeptical that the Russians would be interested. They were interested in the notion of LNG export to the U.S., but reverted to the standard dream of Ceyhan as the energy hub of choice, noting the potential for Iraqi gas to be processed there.

Comment and Next Steps) Russian Pressure

19. (C) Embassy will work Hellman's themes with MFA (unavailable during the Hellman visit) and MENR, particularly to gauge the support of Minister Guler. If it is clear that Minister Guler is supportive, the USG should seek to facilitate a negotiated agreement between Turkey, Azerbaijan, and perhaps Greece. Embassy will work with TDA to explore support to Turkey on a Henry Hub type approach; i.e. implementing a & hub in a good way (transparent transit regime in accordance with international norms, vice a Gazprom approach). Henry Hub is a physical pipeline node and a pricing point, but it clearly embodies a transparent, facilitative transit approach.

110. (C) Turkish press reports that Gazprom comes to Turkey on August 15. There may be danger of a & grand bargain trading Russian support for the Turkish Samsun-Ceyhan oil pipeline in exchange for more Gazprom gas in Turkish pipelines, potentially transiting onwards. At the same time, Turkish officials are loathe to give up too much or fear

leaving too much on the table in establishing Turkey,s energy hub and transit approach. Therefore, it will be important that we continue to work behind the scenes to bring all the parties together, most likely starting with an Azeri-Turkish meeting to dispel misunderstandings and reach agreement on a transit regime.

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